

Wisconsin State Legislature

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Joint Committee on Finance *100TH ANNIVERSARY 1911 - 2011*

MEMORANDUM

To: Members
Joint Committee on Finance

From: Senator Alberta Darling
Representative Robin Vos

Date: July 22, 2011

Re: DNR and DOA Report to JFC

Attached is a report on the final version of the ELF Biennial Finance Plan from the Department of Natural Resources and the Department of Administration, pursuant to s. 281.59(3)(bm)3, Stats.

The purpose of the plan is to provide information on loan, loan subsidy, and bonding levels for program operations in the 2011-2013 biennium.

This report is being provided for your information only. No action by the Committee is required. Please feel free to contact us if you have any questions.

Attachments

AD:RV:jm



MIKE HUEBSCH, SECRETARY



CATHY STEPP, SECRETARY

July 22, 2011

The Honorable Robin Vos
Co-Chair Joint Committee on Finance
Room 309 East
State Capitol

RECEIVED
JUL 22 2011
BY: ST. FINANCE

SUBJECT: Wisconsin Environmental Improvement Fund
Biennial Finance Plan for 2011-2013

Dear Representative Vos:

Environmental Improvement Fund (EIF) program legislation (s. 281.59(3)(bm)3, Wis. Stats.) requires the Department of Natural Resources and the Department of Administration to submit to the Legislature and to the State Building Commission the final version of the EIF Biennial Finance Plan following enactment of the biennial budget. The purpose of the Plan is to provide information on loan, loan subsidy, and bonding levels for program operations in the 2011-2013 biennium.

If you have any questions regarding the Biennial Finance Plan, please contact Robin Schmidt at 266-3915 or Michael Wolff at 267-2734.

Sincerely,

Robin Schmidt, Chief, Environment Loans
Bureau of Community Financial Assistance
Department of Natural Resources

Frank R. Hoadley
Capital Finance Director
Department of Administration

cc: Cathy Stepp – AD/8
Mike Huebsch – DOA

BIENNIAL FINANCE PLAN
ENVIRONMENTAL IMPROVEMENT FUND
FINAL VERSION
JULY 2011

Prepared by:

Department of Natural Resources
Bureau of Community Financial Assistance

Department of Administration
Capital Finance Office

ENVIRONMENTAL IMPROVEMENT FUND
BIENNIAL FINANCE PLAN
FINAL VERSION JULY 2011

EXECUTIVE SUMMARY

PROPOSED FUNDING LEVELS FOR THE ENVIRONMENTAL IMPROVEMENT FUND (EIF)

BONDING AUTHORITY AND PRESENT VALUE SUBSIDY LIMIT
(in millions of dollars)

	CHANGE IN AMOUNT	CUMULATIVE
A. CLEAN WATER FUND PROGRAM		
General Obligation Bonding	\$6.7*	\$783.7*
Revenue Bonding	353.0	2,716.3
Present Value Subsidy	65.7	n/a

Bonding and present value subsidy levels are expected to be sufficient to meet all of the estimated non-hardship requests.

B. SAFE DRINKING WATER LOAN PROGRAM		
General Obligation Bonding	\$9.4*	\$54.8
Present Value Subsidy	30.7	n/a

C. LAND RECYCLING LOAN PROGRAM		
Present Value Subsidy	\$0.0**	n/a

Notes:

*For the 2011-13 biennium, it is estimated that the Clean Water Fund Program and the Safe Drinking Water Loan Program will fund \$776.9 million in new projects expected to apply during that period. For the Clean Water Fund Program, amounts expected to carry over from previous biennia plus \$6.7 million in new bonding will be sufficient to fund the subsidies, reserves, federal capitalization grant matching amounts, and hardship grants for the biennium.

**All of the funds allocated to the Land Recycling Loan Program have been committed.

The proposed funding levels of general obligation bonding, revenue bonding, and present value authority are based on estimates of future needs for funding. These estimates, and the associated funding levels, may change as more data becomes available and as the budget development process proceeds.

ENVIRONMENTAL IMPROVEMENT FUND
BIENNIAL FINANCE PLAN
FINAL VERSION JULY 2011

INTRODUCTION

Section 281.59(3), Wis. Stats., requires the submission of a Biennial Finance Plan for the Environmental Improvement Fund (EIF) to the Building Commission, the Joint Finance Committee, and to the Chief Clerk of each house of the legislature. The law requires that the Department of Natural Resources (DNR) and the Department of Administration (DOA) provide information on the following topics:

1. An estimate of the wastewater and storm water treatment, safe drinking water, and land recycling project needs, and the total amount of financial assistance planned to be provided or committed for projects during the four fiscal years of the next two biennia.
2. The extent to which the EIF will be maintained in perpetuity.
3. Financial statements, charts, and other financial information regarding the EIF.
4. The estimated present value of subsidies for program loans and grants listed in the biennial needs list with a discussion of the assumptions made in these subsidy calculations.
5. The amount and description of service fees to be charged.
6. The Biennial Finance Plan impact on the guideline stated in s. 281.59(3)(b), Wis. Stats.

Attachment A summarizes program authority levels and financial assumptions. Attachment B charts projected sources and uses of funds for the 2011-13 biennium. Attachment C shows the estimated fund capital available for commitments in each of the next four fiscal years based on projected repayment of financial assistance and other fund balance projections.

NEEDS AND FINANCIAL ASSISTANCE PLANNED TO BE PROVIDED

Clean Water Fund Program (CWFP)

Table 1 shows the projections of the total amount of all wastewater and storm water funding needs and the financial assistance planned to be provided over the next four fiscal years. These projections represent the best estimates as of September 7, 2010 based on DNR data, historical CWFP loan data, and surveys of DNR field staff and municipalities.

TABLE 1
PROJECTED WASTEWATER AND STORM WATER NEEDS AND ASSISTANCE PLANNED TO
BE PROVIDED
(in millions of \$s)

% of Market Interest Rate	FY12	FY13	FY14	FY15
75% Compliance Maintenance, Storm Water, Unsewered	555.5	98.2	230.1	124.2
Market Rate	5.3	5.2	12.1	6.6
TOTAL	560.8	103.4	242.2	130.8

ENVIRONMENTAL IMPROVEMENT FUND
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Safe Drinking Water Loan Program (SDWLP)

Data from preliminary needs surveys and past application activity indicate that drinking water needs will exceed the amount of capitalization grants available in the next two biennia. Therefore, we show numbers for financial assistance planned to be provided. For the purposes of calculating assistance planned to be provided, we assume that the state receives \$23,400,000 in capitalization grants in each year.

Table 2 shows the amount of funds expected to be available during the biennium. The amounts include state match contributions (20% of capitalization grants), unused funds from previous years, repayments, and investment earnings.

TABLE 2
PROJECTED DRINKING WATER FINANCIAL ASSISTANCE PLANNED TO BE PROVIDED
(in millions of \$s)

% of Market Interest Rate	FY12	FY13	FY14	FY15
33%	11.9	7.8	8.0	8.1
55%	47.6	31.2	31.8	32.3
Principal Forgiveness	7.0	7.0	7.0	7.0
TOTAL*	66.6	46.1	46.7	47.4

*May not add due to rounding.

Land Recycling Loan Program (LRLP)

All of the funds allocated to the LRLP have been committed.

TABLE 3
PROJECTED LAND RECYCLING FINANCIAL ASSISTANCE PLANNED TO BE PROVIDED
(in millions of \$s)

	FY12	FY13	FY14	FY15
TOTAL	0.0	0.0	0.0	0.0

FUND MAINTAINED IN PERPETUITY

The CWFP consists of three loan portfolios:

1. The Leveraged Portfolio uses the proceeds from state revenue bonds to make loans. The leveraged portfolio is designed so that loan repayments plus state subsidies are used to retire revenue bonds issued.
2. The Direct Portfolio uses capitalization grants from the US Environmental Protection Agency (EPA) and state matching funds (it is from this portfolio that the LRLP was funded). The EPA-funded programs for the CWFP, the SDWLP, and the LRLP are self-perpetuating portfolios which will continue to grow as principal and interest payments are recycled into new loans. EPA regulations require that the EPA-funded programs be maintained in a way that guarantees that they will continue in perpetuity. The only way that the EPA-funded programs would diminish in size is if a substantial number of loan defaults occurred.
3. The Proprietary Portfolio for loans that do not fit under the leveraged or direct programs.

ENVIRONMENTAL IMPROVEMENT FUND
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Some loans can only be funded in the proprietary portfolio because of questionable credit quality, non-conformity with EPA regulations, or federal tax requirements. The number and amount of loans maintained in the proprietary portfolio is kept to a minimum.

FINANCIAL REPORTS

Section 281.59(3)(a)5, Wis. Stats., requires the presentation of audited financial statements for the CFWP, the SDWLP, and the LRLP. Financial statements covering those programs, including the balance sheet and statement of revenues and expenses, are part of the overall program financial statements prepared by the DOA and audited by Baker Tilly Virchow Krause, LLP. These statements must be considered in their entirety and may not be presented without accompanying statements and notes. The most recent copies of the audited financial statements, together with the report of the accountants, are available from the DOA Capital Finance Office (608-267-2734) or the DNR Bureau of Community Financial Assistance (608-267-7475) or on the web at www.doa.state.wi.us/capitalfinance/.

Attachment A summarizes program authority levels and financial assumptions. Attachment B charts projected sources and uses of funds for the 2011-13 biennium. Attachment C shows the estimated fund capital available for commitments in each of the next four fiscal years based on projected repayment of financial assistance and other fund balance projections.

PRESENT VALUE OF SUBSIDIES

Present value subsidy is the control mechanism that is employed under the EIF and the loan and grant programs operating within the Fund to measure the fiscal impact on the state. The stream of payments over the life (20 years) of all loans to municipalities that the state would have to make to finance the difference between the actual subsidized loan and a market rate loan is the total subsidy. The total subsidy over time is discounted to produce a present value equivalent figure. Each year's funding list identifies projects in priority order. If there is insufficient present value subsidy to provide subsidized loans to all municipalities on the list, only those projects with the highest priority would be funded with subsidized loans. Table 4 provides estimates of the present value of long-term subsidy amounts that will be provided assuming the levels of assistance proposed in previous section of this report.

TABLE 4
PRESENT VALUE SUBSIDY LEVEL
ENVIRONMENTAL IMPROVEMENT FUND
(in millions of 2010 \$s)

CLEAN WATER FUND PROGRAM

Loans at 75% of market rate – all types	55.5
Loans at market rate	0
Hardship grants and principal forgiveness	10.1
TOTAL (may not add due to rounding)	65.7

SAFE DRINKING WATER LOAN PROGRAM

Loans at 33% of market rate	4.4
Loans at 55% of market rate	12.2
Loans receiving principal forgiveness	14.0
TOTAL (may not add due to rounding)	30.7

ENVIRONMENTAL IMPROVEMENT FUND
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LRLP SERVICE FEE

Section 281.60(11m), Wis. Stats., specifies that the DNR and the DOA shall jointly charge and collect an annual service fee for servicing LRLP financial assistance agreements. The statute also specifies the fee for the biennium shall be described in the Biennial Finance Plan. The service fee for the 2011-13 biennium is 0.5% of the outstanding balance on LRLP loans.

IMPACT ON S. 281.59(3)(b), WIS. STATS., GUIDELINES:

Authorizing legislation for the CWFP indicates that, in preparation of the Biennial Finance Plan, the DNR and the DOA shall consider as a guideline that all state water pollution general obligation debt service should not exceed 50% of all general obligation debt service costs of the state. The debt service costs for all state water pollution abatement programs were approximately 14.8% of all state debt service in fiscal 2010 and are expected to total 11.6% of all state debt service in fiscal 2011. As a percentage of total General Purpose Revenue debt service, these figures would be 16.3% and 13.1% respectively. Accordingly, the pollution abatement debt service costs are well within the 50% guideline. The composition of the debt service costs will change over time as the debt service expense of the CWFP replaces debt service for the expenses incurred under the Wisconsin Fund grant program.

The state cost of assisting municipalities in the construction of pollution control facilities will continue to be significantly less than the costs previously incurred when state grants were offered for similar facilities.

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND
SUMMARY OF PROGRAM AUTHORITY AND FINANCIAL ASSUMPTIONS
ATTACHMENT A TO 2011-2013 BIENNIAL FINANCE PLAN FINAL VERSION**

Clean Water Fund Program Authority

GENERAL OBLIGATION BONDS

Subsidy Reserve Requirements	\$34,200,000
Capitalization Grant Match	14,000,000
Credit Reserve (funded with revenue bonds for '11-'13)	0
Direct Loans Less Available Repayments	(3,900,000)
Hardship Grants	3,300,000
Subtotal:	\$ 47,600,000
Less: Available General Obligation Bond Authority (carried over from '09-'11)	40,900,000
New General Obligation Bond Authority Needed to Fund '11-'13 needs	6,700,000
New General Obligation Bond Authority Approved	6,700,000
Existing General Obligation Bond Authority	777,043,200
Cumulative General Obligation Bond Authority Including '11-'13 Authorization	\$ 783,743,200

REVENUE BONDS

Projects to be Funded	\$ 428,800,000
Allowance for Project Cost Increases, Reserves, and Costs of Issuance	42,900,000
Total:	471,700,000
Less: Carryover Projected from '09-'11	118,700,000
New Revenue Bond Authority Approved	353,000,000
Existing Revenue Bond Authority	2,363,300,000
Cumulative Revenue Bond Authority Including '11-'13 Request	\$2,716,300,000

PRESENT VALUE SUBSIDY

Present Value Subsidy Biennial Limit Approved	\$ 65,700,000
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Financial Assumptions

PROJECTS TO BE FUNDED (from September 2010 DNR estimates)

Compliance Maintenance + New and Changed Limits	619,800,000
Nonpoint + Urban Stormwater Pollution Abatement	5,700,000
Unsewered	5,500,000
Market Rate - not eligible for subsidy	33,200,000
Total Project Costs	\$ 664,200,000

CAPITALIZATION GRANTS FROM THE US EPA (estimated)	\$ 70,000,000
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INTEREST RATES (at 5.0% estimated market rate)

Compliance Maintenance, New/Changed Limits, Urban Storm, Nonpoint Source, and Unsewered @ 75% of market	3.750%
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STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND
SUMMARY OF PROGRAM AUTHORITY AND FINANCIAL ASSUMPTIONS
PAGE 2 OF ATTACHMENT A TO 2011-2013 BIENNIAL FINANCE PLAN FINAL VERSION

Safe Drinking Water Loan Program Authority

GENERAL OBLIGATION BONDS

Previously Authorized But Uncommitted G.O. Authority	480
Capitalization Grant Match for 2011-2013 EPA Grants	9,359,600
New G.O. Authority (rounded)	9,400,000
Cumulative G.O. authority	\$54,800,000

PRESENT VALUE SUBSIDY

Proposed Present Value Subsidy 11-13 Biennial Limit (Loans)	16,600,000
Proposed PV for \$14 Million Principal Forgiveness	14,039,400
Total PV Needed for Loans & Principal Forgiveness (rounded)	\$30,700,000

Financial Assumptions

PROJECTS TO BE FUNDED

Projects for communities receiving 55% of market rate	\$78,930,789
Projects for communities receiving 33% of market rate	\$19,732,697
Projects receiving principal forgiveness	\$14,039,400
Total Project Costs	\$112,702,886

EPA CAP. GRANT + MATCH AVAILABLE FOR PROJECTS	\$49,669,290
OTHER FUNDS POTENTIALLY AVAILABLE	\$63,033,596
INTEREST RATES (at 5.0% assumed market rate)	
55% of 5% market interest rate (Regular Rate)	2.750%
33% of 5% market rate (Hardship Rate)	1.650%

Land Recycling Loan Program Authority (see note)

GENERAL OBLIGATION BONDS

None authorized nor recommended

PRESENT VALUE SUBSIDY

Proposed Present Value Subsidy Biennial Limit	\$0
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Financial Assumptions

PROJECTS TO BE FUNDED

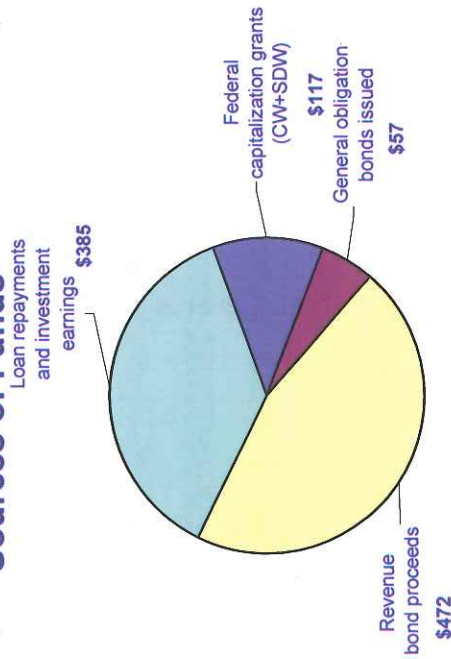
Total Project Costs	\$0
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INTEREST RATE ON NEW LOANS	n/a
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Note: All Land Recycling Loan Program funds have been obligated

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND
ESTIMATED SOURCES AND USES FOR 2011-2013 BIENNIUM
ATTACHMENT B TO 2011-2013 BIENNIAL FINANCE PLAN FINAL VERSION**

Sources of Funds



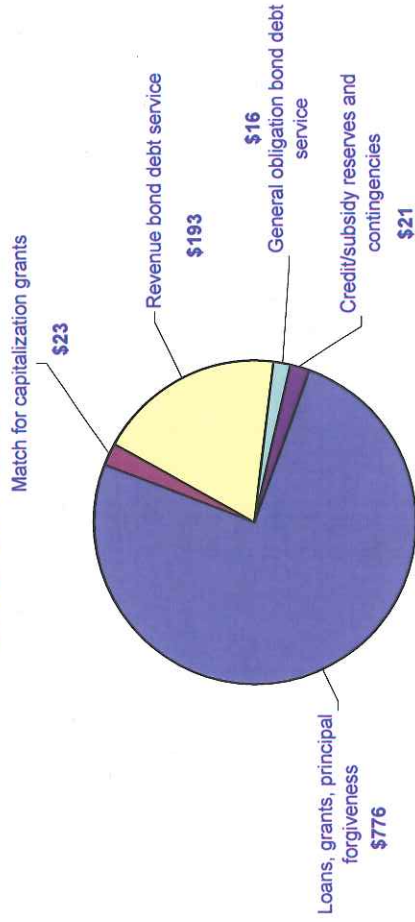
SOURCES OF FUNDS

Federal capitalization grants (CW+SDW)	\$117
General obligation bonds issued	57
Revenue bond net proceeds	472
Loan repayments and investment earnings	385
TOTAL SOURCES	\$1,030

Notes:

All numbers estimated and expressed in millions of dollars
 Loans and grants include projects originated during period indicated to end of funding cycle
 Assumptions regarding future interest rates for tax exempt bonds affect projections
 Does not include accruals or unapplied fund balances

Uses of Funds



USES OF FUNDS

Loans, grants, principal forgiveness	\$776
Match for capitalization grants	23
Revenue bond debt service	194
General obligation bond debt service	16
Credit/subsidy reserves and contingencies	21
TOTAL USES	\$1,030

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND
CAPITAL AVAILABLE AND PROJECTED FUND BALANCES
ATTACHMENT C TO THE 2011-2013 BIENNIAL FINANCE PLAN VERSION THREE**

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Bond & Federal Grant Revenue (adjusted)</u>	<u>Loan Payments</u>	<u>Disbursements</u>		<u>Ending Balance</u>	<u>Loan & Grant</u>		<u>Net Balance</u>
				<u>Payments</u>	<u>& Bond Payments</u>		<u>Commitments</u>	<u></u>	
FY08	400.5	209.3	169.1	(381.6)		397.4	(219.9)		177.4
FY09*	397.4	166.7	184.7	(336.0)		412.8	(240.7)		172.1
FY10*	412.8	338.3	203.1	(418.3)		536.0	(310.5)		225.5
FY11	536.0	220.0	209.6	(429.0)		536.6	(276.0)		260.7
FY12	536.6	210.0	222.2	(416.3)		552.6	(291.5)		261.1
FY13	552.6	150.0	234.7	(434.5)		502.8	(307.0)		195.8
FY14	502.8	210.0	234.7	(434.5)		513.0	(307.0)		206.0
FY15	513.0	150.0	234.7	(434.5)		463.3	(307.0)		156.3
FY16	463.3	210.0	234.7	(434.5)		473.5	(307.0)		166.5
FY17	473.5	150.0	234.7	(434.5)		423.8	(307.0)		116.8
FY18	423.8	210.0	234.7	(434.5)		434.0	(307.0)		127.0
FY19	434.0	150.0	234.7	(434.5)		384.3	(307.0)		77.3
FY20	384.3	210.0	234.7	(434.5)		394.5	(307.0)		87.5
FY21	394.5	150.0	234.7	(434.5)		344.8	(307.0)		37.8
FY22	344.8	210.0	234.7	(434.5)		355.0	(307.0)		48.0
FY23	355.0	210.0	234.7	(434.5)		365.2	(307.0)		58.2
FY24	365.2	210.0	234.7	(434.5)		375.5	(307.0)		68.5
FY25	375.5	210.0	234.7	(434.5)		385.7	(307.0)		78.7
FY26	385.7	150.0	234.7	(434.5)		336.0	(307.0)		29.0
FY27	336.0	210.0	234.7	(434.5)		346.2	(307.0)		39.2
FY28	346.2	210.0	234.7	(434.5)		356.5	(307.0)		49.5
FY29	356.5	210.0	234.7	(434.5)		366.7	(307.0)		59.7
FY30	366.7	150.0	234.7	(434.5)		316.9	(307.0)		10.0

Notes: All numbers in millions
Beginning and net balances will vary significantly depending on timing of grant receipts and bond issuance
Report shows estimated capital available and fund balances; not assets and equity
For additional information refer to audited financial statements
* indicates actuals